

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

AN ADJUSTMENT OF RATES )  
OF PARKSVILLE WATER ) CASE NO. 8365  
DISTRICT )

O R D E R

On October 9, 1981, Parksville Water District ("Parksville") filed an application with this Commission giving notice of an interim adjustment of rates to become effective November 1, 1981, and a permanent increase as ordered by the Commission. Parksville stated that the proposed interim rates would produce additional revenue of \$61,987 annually, an increase of 94.5 percent based on test year revenue. On March 10, 1982, Parksville submitted a revised billing analysis which indicated additional revenue of \$70,054 annually, an increase of 94 percent based on normalized test year revenue. By Commission order, the effective date of the proposed tariffs was suspended until April 1, 1982, pursuant to the provisions of KRS 278.190. Based on the determination herein the annual revenue will increase by \$42,867, an increase of 58 percent.

On November 23, 1981, Parksville amended its application to request approval of a purchased water adjustment clause. On January 20, 1982, the Commission issued an Interim Order authorizing Parksville to place into effect an interim rate subject to refund pursuant to KRS 278.190. The interim rate was based on

the increased cost of purchased water from Parksville's supplier, the City of Danville ("Danville"). The Commission in that order directed Parksville to file monthly reports on the progress of its efforts to reduce line loss to an acceptable level.

A hearing was held at the Commission's offices in Frankfort, Kentucky, on March 3, 1982. There were no intervenors.

#### Commentary

Parksville is a non-profit water district organized and existing under the laws of the Commonwealth of Kentucky, serving approximately 726 customers in Boyle County, Kentucky. Parksville purchases all of its water from Danville.

#### Test Period

Parksville proposed and the Commission has adopted the 12-month period ending August 31, 1981, as the test period for determining the reasonableness of the proposed rates. In utilizing the historical test period, the Commission has given full consideration to known and measurable changes found reasonable.

#### Revenues and Expenses

Parksville proposed several adjustments to revenues and expenses as reflected on its budgeted statement. The Commission finds that the adjustments proposed by Parksville are generally acceptable for rate-making purposes with the following modifications:

#### Revenue Normalization

Parksville's revenue for the test year was \$65,621. Parksville's witness, Mr. Critchfield, testified that during the test year, it changed its method of reporting revenue from the cash

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basis to the accrual basis. However, the test year revenue reflected the cash basis of accounting. Therefore, the Commission has adjusted test year revenue to an adjusted level of \$74,192 to reflect the total revenue generated from the revised billing analysis. In determining the adjusted revenue the Commission has made several adjustments to the billing analysis as discussed in the Billing Analysis section of this order.

Purchased Water Expense

Parksville proposed an adjustment to increase purchased water expense by \$14,341 to reflect the increase in wholesale water cost from Danville, effective July 1, 1981. In determining the pro forma purchased water expense, Parksville applied the new wholesale water rate to the actual sales during the test year plus an estimated line loss of 17 percent. The line loss actually incurred during the test year, based on the volume of sales contained in the revised billing analysis, was 34 percent. In accordance with past policy the Commission has adjusted purchased water expense to include a maximum 15 percent line loss. This adjustment results in pro forma purchased water expense of \$47,835.

In the Interim Order in this matter of January 20, 1982, the Commission found that Parksville had excessive line losses and ordered it to begin immediately to file monthly reports of the line losses and the efforts to reduce line losses to an acceptable level. At this time Parksville has not complied with that provision of the order. Parksville is hereby advised that

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(1) Transcript of Evidence of March 3, 1982, pages 73 and 74.

this Commission will not permit any future disregard of the law and may seek to impose the maximum statutory penalties pursuant to KRS 278.990 if additional offenses occur. The Commission finds that Parksville should within 10 days of the date of this order file the reports required in the Interim Order for each month beginning with January 1982.

#### Electric Expense

Parksville proposed an adjustment of \$780 to increase electric expense. The proposed adjustment was based on monthly electric bills for a 12-month period which was not the same as the test period. Parksville offered no support for its basis of projecting electric expense, and the Commission finds no justification for the arbitrary time frame Parksville used. Therefore, the Commission has adjusted test year electric expense to reflect the current rates in effect from Parksville's electric supplier, Inter-County Rural Electric Cooperative. In determining the pro forma electric expense the Commission has applied the current rates to the actual KWH used by Parksville during the test year. This results in an adjusted electric expense of \$10,293.

#### Maintenance Expense

Parksville proposed an adjustment to increase maintenance expense by \$4,800 to reflect major repairs to be completed after the test period. At the time of the hearing, the actual cost and the date the repairs would be made were not known. Therefore, the Commission has not allowed these adjustments. However, the

Commission finds the level of maintenance expense actually incurred during the test year of \$6,200 to be reasonable and therefore, has allowed this amount for rate-making purposes.

#### Depreciation Expense

Parksville's actual depreciation expense for the test year was \$7,435. In determining its revenue requirements, Parksville did not include the test year depreciation expense, but included an allowance of \$800 for pro forma depreciation expense based on the depreciation fund requirements of its bond ordinance. The Commission finds that depreciation expense should be computed for rate-making purposes on the basis of the original cost of the plant in service less contributions in aid of construction. The record herein reflects that the level of contributions in aid of construction at the end of the test year was \$11,918 which is approximately 3.2 percent of the total cost of utility plant in service. After excluding depreciation associated with contributed property the adjusted depreciation expense for rate-making purposes is \$7,197.

#### Interest Income

Parksville excluded interest income from its budgeted operating statement although it actually earned \$494 in interest income for the test year. Interest earned for the test year was based on interest rates of 5 and 7 percent for the temporary cash investments of \$14,432 as of the end of the test year. The Commission is of the opinion that the investments (a depreciation account and a meter deposit account) should yield interest income

greater than that earned during the test year if these funds are prudently invested. Therefore, the Commission has increased pro forma interest income to \$1,443 to reflect a 10 percent return on these accounts. This is the minimum that should be earned on these funds.

#### Truck Purchase and Operation

Parksville proposed an adjustment of \$4,500 to reflect the estimated annual payments for the purchase of a truck and the annual cost of operating the truck. At the time of the hearing, the truck had not been purchased nor did Parksville offer any support for the costs of the proposed purchase or the annual operating costs. Therefore, the Commission has denied the proposed adjustment.

#### Salaries and Wages Expense

Parksville proposed to adjust salaries and wages by \$5,300 to reflect \$1,400 in additional cost for meter reading labor, \$1,400 for accounting and collecting labor, and \$2,500 for an operator. This adjustment would result in total pro forma salaries and wages for 3 employees of \$11,000. During the test year Parksville incurred salaries and wages expense of \$5,700. This consisted of \$3,500 for Mr. Feather, \$600 for meter reading labor, and \$1,600 for accounting and collecting labor. Mr. Feather testified that as a result of the addition of new employees he would no longer receive the annual salary of \$3,500 and that an operator and bookkeeper had been hired at an annual cost of \$5,200 and \$7,800, respectively.<sup>(2)</sup>

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(2) Transcript of Evidence of March 3, 1982, page 7.

The Commission has reviewed the overall operation of Parksville and the projected cost of salaries and wages and is of the opinion that the proposed level of compensation for the book-keeper and operator is not unreasonable and should be included herein for rate-making purposes. At the time of the hearing, Parksville had not hired the new employee to read the meters, and this additional cost has not been included herein. However, the Commission is of the opinion that some limited supervision of the operations of Parksville will be required by Mr. Feather and has included \$600 for this purpose.

#### Commissioner Salaries

Parksville proposed to include \$1,800 for its commissioners' salaries to reflect \$50 per month per commissioner. Mr. Feather stated that the three commissioners meet informally and very seldom meet officially for meetings.<sup>(3)</sup> The Commission is concerned about the adverse financial effect of the decision of the water district commissioners to initiate a monthly fee during a period of financial difficulty. In addition, Parksville has demonstrated a lack of prudent management in allowing excessive line losses, maintaining inadequate records, estimating water sales data and providing untimely and inaccurate filings of information with the Commission. The Commission requested monthly sales data several times during the course of these proceedings. Parksville failed to submit this information and stated that it was not available. However, Mr. Feather testified that monthly sales data was logged

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(3) Transcript of Evidence of March 3, 1982, pages 6 and 7.

and recorded on the bills of the customers. Furthermore, he testified that water sales were estimated in January and February of the test year. <sup>(4)</sup> The Commission finds that if the monthly sales data had been properly recorded Parksville would have been able to supply the information requested. In an effort to improve this problem, Parksville has hired a bookkeeper and operator/meter reader. However, the Commission hereby advises Parksville that improvements should be made to its bookkeeping system to assure proper documentation of all revenues and expenses and to be in compliance with the Uniform System of Accounts. For the reasons stated above, the Commission has disallowed the proposed commissioners' salaries for rate-making purposes and advises Parksville that it should not pay commissioner salaries until it can prove to the Commission that its management and operations have improved.

#### Property Insurance

Parksville proposed an adjustment of \$300 to property insurance for costs associated with the purchase of the new truck. In accordance with the Commission's decision to deny the proposed adjustment for the purchase of a new truck, the proposed insurance expense will not be included herein.

#### Outside Services

Parksville proposed to include \$900 for outside services to reflect a retainer for legal services. Parksville stated that it had not been billed for legal services rendered in the past.

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(4) Transcript of Evidence of March 3, 1982, pages 60 and 61.



However, Parksville failed to support the type of services to be provided for the amount proposed or the necessity of those services. The Commission finds the actual test year amount of \$500 for outside services is sufficient and therefore, has denied the proposed adjustment.

#### Supplies and Expense

Parksville estimated on its pro forma statement that it would incur 'supplies and expense' of \$2,000 which was \$658 above the actual test year amount. In the past the Commission has allowed adjustments to the historical test year that are known and measurable. From the evidence of record, Parksville did not adequately support this estimated pro forma adjustment. Therefore, the Commission has denied the adjustment and has allowed the actual test year expense of \$1,342.

#### Office Expense

Parksville incurred \$552 in office expense for the test year. In the pro forma budgeted statement, Parksville did not propose to include an amount for office expense. However, Mr. Feather testified that he had never charged Parksville for the use of an area in the grocery store that he owns. He proposed to allocate an annual amount for rent expense of \$600, telephone expense of \$240, and electric and heat expense of \$300.<sup>(5)</sup> Since the proposed amounts are reasonable in comparison with similarly-sized utilities, the adjustment has been allowed for rate-making purposes.

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(5) Transcript of Evidence of March 3, 1982, page 13.

Other

Parksville did not include amounts for miscellaneous expense and taxes in its budgeted pro forma statement. The Commission has allowed the actual test year amounts for these two items for rate-making purposes.

The Commission finds that Parksville's adjusted test period operations are as follows:

	<u>Actual Test Period</u>	<u>Pro Forma Adjustments</u>	<u>Adjusted Test Period</u>
Operating Revenues	\$ 65,621	\$ 8,571	\$ 74,192
Operating Expenses	66,347	22,733	89,080
Operating Income	(726)	(14,162)	(14,888)
Interest Income	494	949	1,443
Interest Expense	14,987	-0-	14,987
Net Income	<u><u>\$(15,219)</u></u>	<u><u>\$(13,213)</u></u>	<u><u>\$(28,432)</u></u>

Debt Service Coverage

The Commission is of the opinion that the adjusted operating loss of \$28,432 is unjust and unreasonable. Parksville's proposed rates were designed to produce revenues sufficient to cover pro forma operating expenses and a debt service coverage of 1.0 based on the average annual debt service for the remaining years of the notes. The bond ordinance furnished by Parksville does not contain a debt service coverage requirement. The bond ordinance for the 1965 bond issue does, however, require that certain funds be placed into a bond redemption account monthly during the period August 1, 1981, through July 1, 1995, with one lump sum being due in 1995. The Commission finds that Parksville should earn a reasonable amount of interest income during 1981 thru 1995 if these funds are invested wisely, therefore eliminating the need

for a coverage above a 1.0 on this issue. However, the Commission finds that a debt service coverage of 1.2 should be allowed on the 1966 bond issue based on the average of principal and interest payments over the next 5 years. Inasmuch as the Commission has provided sufficient revenue in this order to cover the bond ordinance requirements of monthly deposits into a bond redemption account, we find that Parksville should include a statement in its annual reports to the Commission setting out details of its compliance with this provision of the 1965 bond ordinance and specifying the total annual deposits into the required account. The Commission finds the debt service coverage method to be a fair, just and reasonable method of determining revenue requirements for Parksville and adequate to allow Parksville to pay its operating expenses, meet its debt service requirements and maintain a reasonable surplus. In order to achieve the above requirements, Parksville's operating revenues should be \$117,041 which will require additional revenues of \$42,867 annually. The increase allowed herein is \$24,780 above the amount granted in the Interim Order of January 20, 1982.

#### Rate Structure

Parksville presently has four classes of customers (Classes A, B, C and FC) who are billed under different rate structures. Parksville proposed to change the rate structure for Class C customers from a four-step rate block design to a six-step design. No change was proposed for the other classes.

Mr. Feather testified that the purpose of the proposed change was to equalize costs to the heavy users; however, no studies, comparisons or other reasons were provided. (6) Mr. Feather further testified that Class B, C and FC customers are all served by 5/8-inch meters and receive the same type service. (7) Customers may be placed on the lower Class B rates by paying a higher connection fee. Class FC customers must have regular Class B or C service in order to obtain FC rates for a field connection.

The Commission is of the opinion that customers receiving the same service should be served under the same rate schedule. (8) The Commission is of the further opinion that the rates and rate design proposed by Parksville are unjust and unreasonable and should be denied. Parksville has only three customers receiving service through meters larger than 5/8-inch. The Commission is of the opinion that it would benefit both the utility and its customers to place all customers on a single rate schedule. The Commission has, therefore, consolidated the rates into a single schedule applicable to all customers. The Commission finds that the rates in Appendix A are the fair, just and reasonable rates to be charged by Parksville for water service rendered on and after the date of this order.

#### Connection Fees

Parksville proposed to increase its connection fees as follows:

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- (6) Transcript of Evidence of March 3, 1982, page 35.  
(7) Transcript of Evidence of March 3, 1982, pages 39-41.  
(8) KRS 278.170.

Class A (1-inch meter)	From \$325 to \$500
Class B (5/8-inch meter)	From \$225 to \$350
Class C (5/8-inch meter)	From \$125 to \$200
Class FC (5/8-inch meter)	From \$100 to \$200

The connection fee is designed to recover the utility's actual cost of installing service, including a service tap, meter and meter vault. The connection fee for all 5/8-inch meters should, therefore, be the same. Cost justification filed by Parksville shows the average cost of installing a 5/8-inch meter to be \$199.13 and a 1-inch meter to be \$296.13. The Commission is of the opinion and finds that the connection fees proposed by Parksville are unjust and unreasonable and should be denied. The Commission further finds that the connection fees in Appendix A are the fair, just and reasonable fees to be charged by Parksville for this service.

#### Billing Analysis

The original billing analysis filed by Parksville with its application, the revised billing analysis filed in response to a request at the hearing, the purchased water adjustment filing, testimony at the hearing and a subsequent review by Commission staff of the customer records maintained by Parksville show that such records are incomplete and inaccurate. Based on the best information available to it from the meter readings recorded by Parksville during the test year, the Commission has determined that Parksville served an average of 726 customers per month with recorded usage of 40,559,892 gallons per year. Approximately 75 Class C customers were served through meters which were inoperable and,

thus, were charged the minimum bill only. Mr. Feather testified (9) that all meters are being checked and either repaired or replaced. The Commission is of the opinion that proper operation of all meters and correct charges for actual water used will result in increased revenue for the utility. The Commission has, therefore, adjusted the test year usage to reflect the average Class C usage of 4,089 gallons per month for each of the meters for which usage was not recorded during the test year. The rates in Appendix A are based on this adjusted usage.

#### Summary

The Commission, after consideration of the evidence of record, finds that:

(1) The rates proposed by Parksville would produce revenues in excess of those found reasonable herein and should be denied upon application of KRS 278.030.

(2) The rates in Appendix A are the fair, just and reasonable rates for Parksville and will provide net income sufficient to meet the requirements in Parksville's mortgage securing its long-term debt.

(3) The rates found reasonable herein are higher than the rates authorized in the Interim Order dated January 20, 1982, and therefore, Parksville will not be required to refund any portion of the interim rates.

(4) The line loss reports requested in the Interim Order of January 20, 1982, should be filed within 10 days after the date of this order.

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(9) Transcript of Evidence of March 3, 1982, page 28.

IT IS THEREFORE ORDERED that the rates in Appendix A be and they hereby are approved for service rendered by Parksville on and after the date of this order.

IT IS FURTHER ORDERED that the rates proposed by Parksville be and they hereby are denied.

IT IS FURTHER ORDERED that Parksville shall file with this Commission within 30 days from the date of this order its revised tariff sheets setting forth the rates approved herein.

IT IS FURTHER ORDERED that Parksville shall file within 10 days of the date of this order monthly reports beginning with January 1982, setting out the gallons of water purchased and sold and the progress of its efforts to reduce line loss to an acceptable level.

IT IS FURTHER ORDERED that Parksville shall file a statement in its annual reports for each year through December 31, 1995, setting out details of its compliance with the bond fund provision of the 1965 bond ordinance and specifying the total annual deposits into the required account.

Done at Frankfort, Kentucky, this 21st day of May, 1982.

PUBLIC SERVICE COMMISSION

Murder M. Voh  
Chairman

Katherine Randall  
Vice Chairman

Jim Carver  
Commissioner

ATTEST:

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Secretary

## APPENDIX A

### APPENDIX TO AN ORDER OF THE PUBLIC SERVICE COMMISSION IN CASE NO. 8365 DATED MAY 21, 1982

The following rates are prescribed for the customers served by the Parksville Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the date of this Order.

#### Rates

##### Gallonge Blocks

##### Monthly Rate

First	1,000 gallons	\$6.25 (minimun 5/8" meter)
Next	4,000 gallons	1.85 per 1,000 gallons
Next	5,000 gallons	1.70 per 1,000 gallons
Over	10,000 gallons	1.55 per 1,000 gallons

The minimum monthly bill for 1-inch meters shall be \$13.65 for which the user will be entitled to 5,000 gallons of water. Usage in excess of 5,000 gallons per month shall be billed the same as all other customers.

#### Connection Fees

5/8-inch meter	\$200.00
1-inch meter	300.00